



## MEMORANDUM

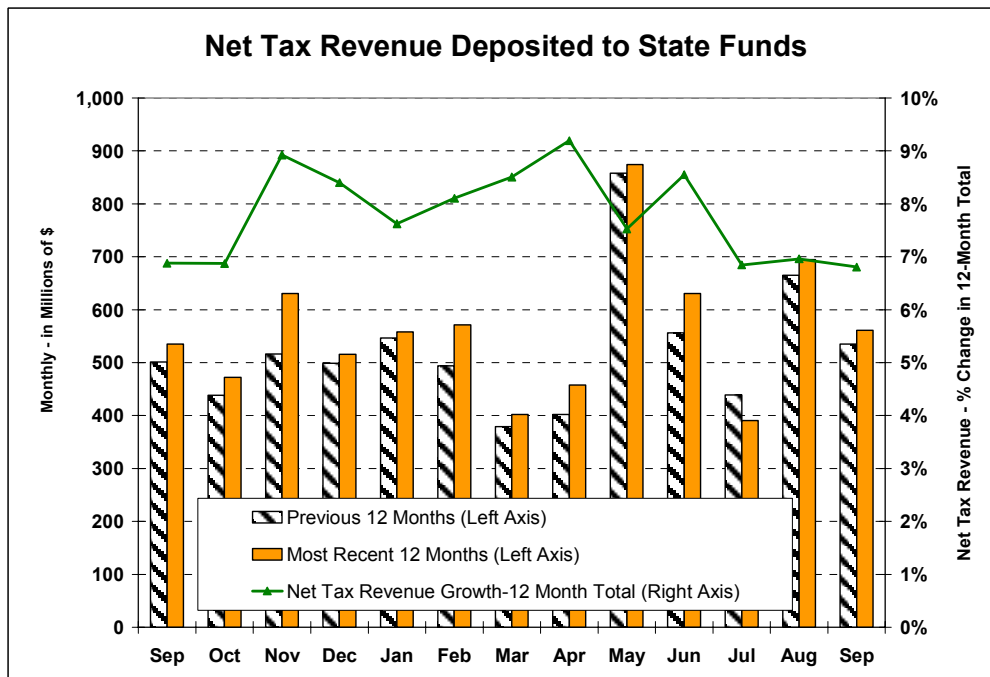
TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives

FROM: Jeff Robinson  
 Shawn Snyder

DATE: October 8, 2008

### Twelve-month Total Net Tax Receipts Through September 30, 2008

The attached spreadsheet presents net State tax receipts for the 12-month period ending September 2008 with comparisons to the previous 12 months. September 2008 to September 2007 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



### Month of September Comparison

September net tax receipts totaled \$561.3 million, an increase of \$26.1 million (4.9%) compared to September 2007. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$0.3 million, 0.1%) – Gross receipts were up \$2.6 million while Income Tax refunds were \$2.3 million higher for the month. September Individual Income Tax receipts were impacted by a tax due-date issue that depressed the month's receipts by approximately \$10.0 million, reversing the opposite impact from August.
- Corporate Income Tax (positive \$3.8 million, 10.4%) – Gross receipts increased \$4.5 million and refunds increased \$0.7 million.
- Sales/Use Tax (positive \$3.2 million, 1.9%)
  - Road Use Tax Fund Use Tax deposits decreased \$1.7 million.
  - General Fund Sales/Use Tax receipts increased \$36.0 million and refunds issued for the month increased \$31.0 million. The large increases in gross receipts and in refunds are related to the recently-enacted Statewide Sales/Use Tax increase for school infrastructure coupled with the elimination of the local Option Sales Tax for school infrastructure. This change boosts State Sales/Use Tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation.
- Fuel Tax (positive \$1.9 million, 4.8%) – Gross Fuel Tax revenue increased \$2.2 million while refunds processed in the month increased \$0.3 million.
- Cigarette & Tobacco Taxes (positive \$3.0 million, 17.3%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. Since reaching the one-year anniversary of increased revenue from the rate increases, Cigarette and Tobacco Tax revenue has shown positive growth for three of five months.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending September 2008, net revenue from all taxes deposited to State funds totaled \$6.761 billion, an increase of \$430.9 million (6.8%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$177.4 million, 6.5%) – Individual Income Tax receipt growth has generally been strong over the past year, but the rate of increase has declined since April's peak of 11.8%.
- Corporate Tax (positive \$36.9 million, 11.4%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the year but remains solidly positive.
- Sales/Use Tax (positive \$115.1 million, 5.4%) – Despite high gas prices, declining home equity withdrawals and reduced home construction, General Fund Sales/Use Tax receipts continue to show significant year-over-year strength.
- Motor Fuel Tax (negative \$7.5 million, - 1.7%) – Net Motor Fuel Tax revenue has been weak the past nine months, likely the result of higher fuel prices reducing the growth in fuel demand. According to Department of Revenue taxable gallons sales reports, over the most recent 12-month period Iowa gasoline/ethanol gallons sold have decreased 3.2% while diesel sales are 1.2% higher.
- Gambling Tax (positive \$9.8 million, 3.4%) – The new Waterloo casino and changes to the Clinton casino are boosting year-over-year statewide Gambling Tax growth. According to Racing and Gaming Commission statistics, seven of Iowa's seventeen casino/track locations reported negative adjusted gross revenue growth over the most recent 12-month period compared to the previous period.

- Cigarette and Tobacco Tax (positive \$80.2 million, 46.4%) – Over the next seven months, the year-over-year rate of revenue increase will continue to decline as the second anniversary of the tax increase approaches.
- Insurance Premium Tax (positive \$9.7 million, 9.9%) – The Insurance Premium Tax rate was reduced over multiple years and is now fully implemented.

### **Tax Spotlight – Beer & Wine Tax**

The Iowa beer tax was first imposed in 1933 by the enactment of HF 587 (Beer and Malt Liquors Act) at a rate of \$0.04 per gallon. The current beer tax rate went into effect July 1, 1986, with enactment of HF 2484 (Government Appropriations Act of 1986). The Iowa wine tax was first imposed with the enactment of SF 395 (Sales and Local Option Tax and Wine Sales Act of 1985) at a rate of \$1.50 per gallon. The rate was increased to its current level of \$1.75 per gallon in 1986 (HF 2484).

Beer and wine sales in Iowa are taxed under Chapter 123, Code of Iowa. The current tax rates are:

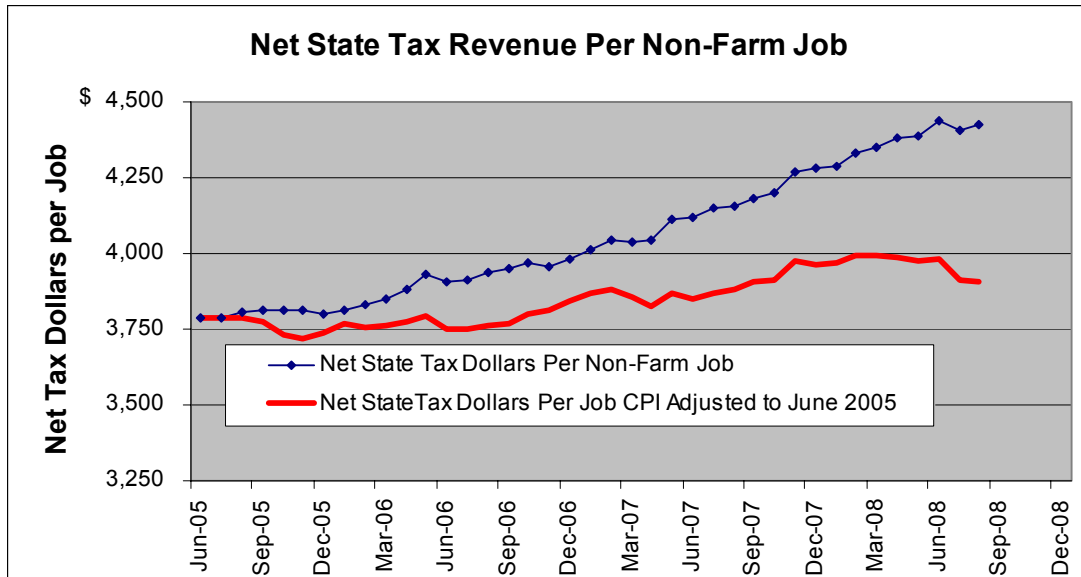
- Beer - \$0.19 per gallon
- Wine - \$1.75 per gallon

Revenue generated from the tax on beer is deposited to the State General Fund. Tax revenue generated from the sale of wine produced out-of-state is deposited to the Liquor Control Fund administered by the Iowa Alcoholic Beverage Division of the Iowa Department of Commerce. Tax revenue generated from the sale of wine produced in Iowa is deposited to the Wine Gallonage Tax Fund under control of the Department of Economic Development for promotion of native Iowa wine and beer.

The State does not tax the sale of distilled spirits. Instead, the Alcoholic Beverage Division operates a distilled spirit wholesale distribution system and the State generates fee revenue through a wholesale price mark-up system put in place in 1987 (HF 2484). Prior to the wholesale system, the State operated retail liquor stores. The original wholesale mark-up rate of 60.0% was reduced to 50.0% in April 1987. Revenue generated through the mark-up system is deposited to the Liquor Control Fund as fee revenue. Excess revenue from that Fund is transferred to the State General Fund on a monthly basis.

## Tax Revenue and Employment

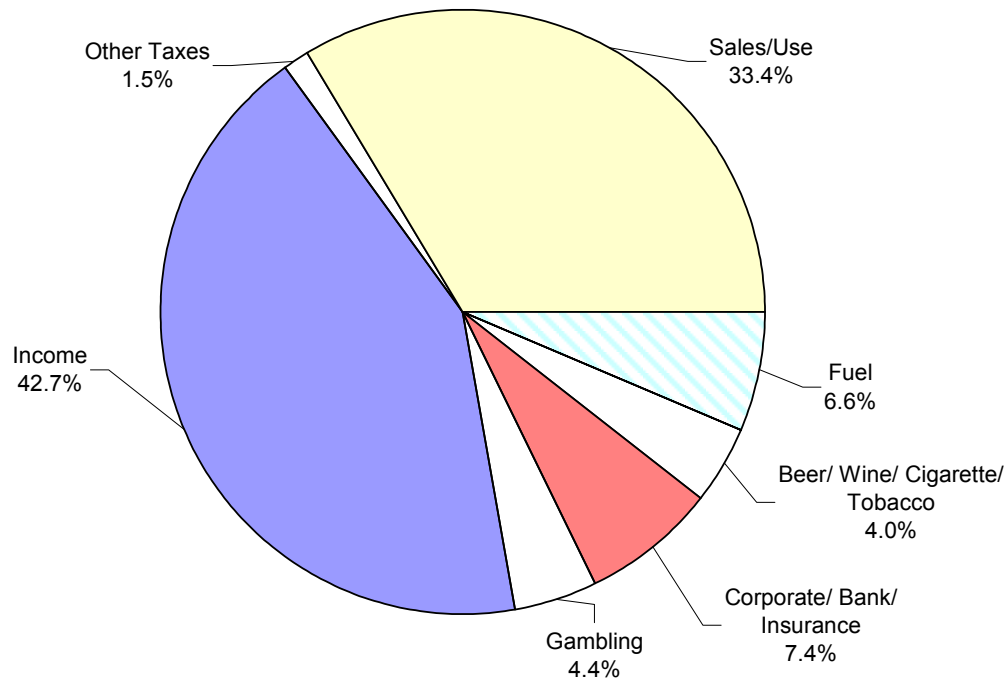
The average reading for Iowa non-farm employment over the 12 months ending August 2008 is 1,512,500, and net State tax receipts over the same 12 months totaled \$6.734 billion, or \$4,423 per non-farm job. This is \$638 (16.8%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 12.6%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.3% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending September 2008

**Net Revenue = \$6.760 Billion**

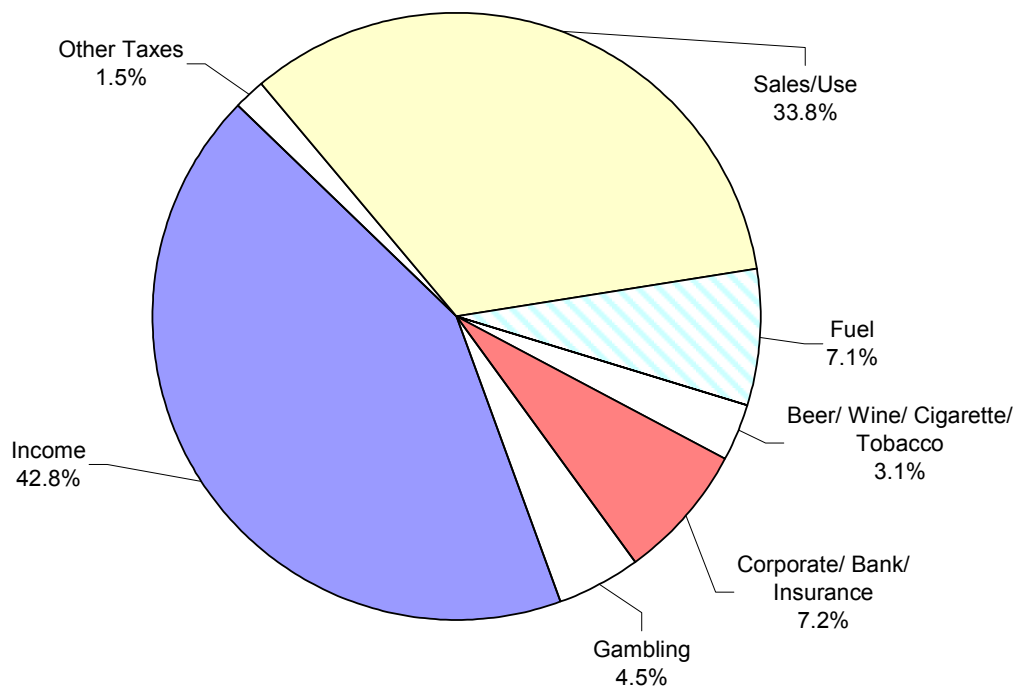
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending September 2007

**Net Revenue = \$6.330 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of September 2007	Month of September 2008	September \$ Change	September % Change
Banking	\$ 33.1	\$ 33.0	\$ - 0.1	-0.3%	\$ 4.6	\$ 4.0	\$ - 0.6	-13.0%
Beer & Wine	20.5	20.8	0.3	1.5%	2.0	1.9	- 0.1	-5.0%
Cigarette & Tobacco	172.8	253.0	80.2	46.4%	17.3	20.3	3.0	17.3%
Corporate Income	322.3	359.2	36.9	11.4%	36.6	40.4	3.8	10.4%
Fuel	450.5	443.0	- 7.5	-1.7%	39.7	41.6	1.9	4.8%
Gambling	284.3	294.1	9.8	3.4%	23.8	24.4	0.6	2.5%
Individual Income	2,711.4	2,888.8	177.4	6.5%	249.7	250.0	0.3	0.1%
Inheritance	73.6	81.0	7.4	10.1%	4.6	6.7	2.1	45.7%
Insurance	97.6	107.3	9.7	9.9%	0.4	0.1	- 0.3	-75.0%
Other Taxes	3.0	6.1	3.1	103.3%	- 13.5	- 1.0	12.5	-92.6%
Real Estate Transfer	18.0	16.6	- 1.4	-7.8%	1.7	1.4	- 0.3	-17.6%
Sales/Use	2,142.5	2,257.6	115.1	5.4%	168.3	171.5	3.2	1.9%
<b>Total Net Taxes</b>	<b>\$ 6,329.6</b>	<b>\$ 6,760.5</b>	<b>\$ 430.9</b>	<b>6.8%</b>	<b>\$ 535.2</b>	<b>\$ 561.3</b>	<b>\$ 26.1</b>	<b>4.9%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 6,996.0	\$ 7,553.6	\$ 557.6	8.0%	\$ 562.7	\$ 623.3	\$ 60.6	10.8%
Tax Refunds	\$ - 666.3	\$ - 793.1	\$ - 126.8	19.0%	\$ - 27.6	\$ - 62.0	\$ - 34.4	124.6%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,366.2	\$ 5,785.8	\$ 419.6	7.8%	\$ 478.8	\$ 494.7	\$ 15.9	3.3%
Road Use Tax Fund	\$ 703.4	\$ 707.1	\$ 3.7	0.5%	\$ 65.9	\$ 65.9	\$ 0.0	0.0%
Non-GF Gambling	\$ 222.8	\$ 234.4	\$ 11.6	5.2%	\$ 3.2	\$ 1.5	\$ - 1.7	-53.1%
Other State Funds	\$ 37.3	\$ 33.2	\$ - 4.1	-11.0%	\$ - 12.7	\$ - 0.7	\$ 12.0	-94.5%
<b>Local Option Taxes *</b>	<b>\$ 680.3</b>	<b>\$ 790.5</b>	<b>\$ 110.2</b>	<b>16.2%</b>	<b>\$ 47.6</b>	<b>\$ 52.2</b>	<b>\$ 4.6</b>	<b>9.7%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All Motor Vehicle Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium Tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use Tax:** General Sales/Use Tax is deposited to the State General Fund, while most Vehicle Use Tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the Vehicle Use Tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) Sales Tax was converted to a statewide 1.0% Sales/Use Tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net Sales/Use Tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, Local option taxes included the SILO Tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax. Starting FY 2009, the SILO Tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the Local Option Tax amount.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.